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ABSTRACT

This monograph offers an overview of historical trends in the funding of special education programs, examines current issues, and considers directions for the future. After an introductory section, a section on historical perspectives notes trends in federal and state funding since 1975. A table shows the current funding formulas used by each state. Section 3 discusses federal fiscal policy issues including: census-based funding, fiscal disincentives for least restrictive placements, the "incidental benefit" rule, blended funding and service provision, and poverty adjustment. Section 4 evaluates various interrelated factors driving future fiscal policy at the state level, including: rising enrollments, rising expenditures, restrictiveness resulting from public aid differentials, and lack of program flexibility at the local level. Tables detail enrollment trends and trends in expenditures per student. Section 5 offers a case study of two key features of Florida's funding system--its system of "mainstreaming weights" to allow funding for students in general education classes, and its Exceptional Student Education Finance Program Model which uses a limited set of cost factors based on the severity of student need and the intensity of support required. The final section considers the future of special education finance, noting expected growth and such trends as reduction of incentives for student identification, increased integration across categorical program areas, greater local discretion and parent involvement, needs-based funding systems, and results-based accountability. (Contains 33 references.) (DB)

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Special Education Finance:
Past, Present, and Future

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Policy Paper Number 8

Center for Special Education Finance

Prepared under a Cooperative Agreement from the U.S. Department of Education, Office of Special Education Programs

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Special Education Finance:
Past, Present, and Future

Thomas B. Parrish

Center for Special Education Finance
Policy Paper Number 8
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The Center for Special Education Finance (CSEF) was established in October 1992 to address a comprehensive set of fiscal issues related to the delivery and support of special education services to children throughout the U.S. The Center's mission is to provide information needed by policymakers to make informed decisions regarding the provision of services to children with disabilities, and to provide opportunities for information sharing regarding critical fiscal policy issues.

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Contents

I. Introduction 1

II. Historical Perspective 3
Federal Funding 3
State Funding 4
Current Issues 6

III. Federal Special Education Finance Issues 7
Census-based Funding 7
Fiscal Disincentives for Least Restrictive Placement 9
"Incidental Benefit" Rule 9
Blended Funding and Service Provision 10
Poverty Adjustment 10

IV. State Special Education Finance Issue 13
Rising Enrollments 13
Rising Expenditures 14
Restrictiveness Resulting from Public Aid Differentials 18
Lack of Program Flexibility at the Local Level 19

V. Florida - A Case Study 21
Exceptional Student Mainstreaming Weights 21
Exceptional Student Education Finance Program 22

VI. The Future of Special Education Finance 25
Continued Growth 25
Strategies to Explore 28

References 31

Tables

1. Special Education Finance in the States 5
2. Special and General Education Enrollment Trends: 1987/88 - 1992/93 14
3. Trends in Special Education and General Education Expenditures per Pupil (Expressed in 1989/90 Dollars) 17

I. Introduction

With the passage in 1975 of the Education for All Handicapped Children Act—now called the Individual with Disabilities Education Act or IDEA (P.L. 94-142)—what was previously a patchwork of programs for students with disabilities began transformation into a truly national system of services. With enrollments of 5.37 million students (1993-94), and an estimated national expenditure in excess of $32 billion (1993-94),[1] the development and full implementation of special education programs and related services for students with disabilities undoubtedly represent the largest new undertaking by K-12 education in over 20 years. This contention is bolstered by a recently reported finding that over 38 percent of all new education dollars between 1967 and 1991 in a sample of school districts went to special education (Rothstein & Miles, 1995).

Although protection for students with disabilities continues to be enhanced through the passage of such legislation as the Americans with Disabilities Act (ADA) in 1990, the substantial student growth and new investments in special education programs have also led to heightened levels of public scrutiny. For example, with the recent rise in fiscal conservatism, public investments in all social

[1] This estimate is based on an estimated K-12 public education enrollment of 43,353,000 (U.S. Department of Education, 1995b), a special education enrollment of 5,373,077 (U.S. Department of Education, 1995c); and an average public education expenditure per student of $5,377 for the 1993/94 school year (NCES, 1995). Expressing this count of special education students (birth to 21) as a percentage of the overall education enrollment (K-12) equals 12.39 percent (5,373,077 / 43,353,000). To derive an estimate of the overall special education expenditure across the nation from this information, we want to break out the average general education expenditure per student and the average special education expenditure per student from the overall expenditure average of $5,377. A 1988 study reported that the expenditure for the average special education student is 2.3 times that of the average general education student. To derive a weighted average general education expenditure (E), the equation $5,377 = (E * (1 - .1239)) + (E * .1239 * 2.3) produces an estimate of $4,631. This number multiplied by the special education enrollment for 1993/94 (5,373,077) multiplied by the factor of 1.3 for marginal special education cost produced by the 1988 study equals a national estimate of marginal special education expenditures of $32.3 billion for 1993/94 school year (Moore et al., 1988).

programs have come under careful review, and special education has been no exception.

Even before the current era of competitive budget slashing—in which governors, federal legislators, and presidential candidates appear to be engaged in dueling proclamations of proposed cuts in public sector programs—fiscal policies in relation to special education had entered an era of heightened public attention. Issues relating to the costs and financing of special education have received extensive national publicity over the past several years through such prominent outlets as a feature article in the *U.S. News and World Report* (1992), a major series of articles in the *New York Times* (1994), and an editorial in the *Wall Street Journal* (1993). With titles like "Separate and Unequal" and "Special Education Soaks up New York's School Resources," this media attention has not always been positive. These concerns about escalating costs were further exacerbated by the recent release of data for the 1994/95 school year showing the largest one-year jump in special education enrollments since the passage of the Education of the Handicapped Act (EHA) in 1975.

In addition to issues related to special education costs, other policy issues, such as increased emphasis on placing special education students in general education classrooms and the need for greater fiscal flexibility in relation to local program design, have led to unprecedented fiscal reform activity in special education. At the federal level, issues relating to the reauthorization hearings on the IDEA predominate. At the state level, survey results from the national Center for Special Education Finance (CSEF) reveal that over two-thirds of the 50 states are currently engaged in activities to change the way in which they fund special education.

The purpose of this paper is to provide a brief overview of historical trends in the funding of special education programs, to discuss current issues, and to consider alternative directions for the future. Accordingly, the paper is divided into three sections on the past, present, and future of special education finance. Each of these sections contains federal and statewide perspectives, and one chapter focuses on Florida as a case study example.

II. Historical Perspective

Although public institutions for children with such disabilities as deafness and blindness were established as early as the 1820s, many children with disabilities were historically denied the right to a public education in the United States. For example, during hearings for the Education of the Handicapped Amendments in 1975, it was reported that 1.75 million children with disabilities were receiving no education at all and 2.5 million children with disabilities were receiving an inappropriate education (U.S. Senate, 1975). In response, the 1975 passage of P.L. 94-142 expanded the federal commitment to assist participating states and local education agencies to provide appropriate education services to all children with disabilities.

Federal Funding

At the heart of this legislative program is a financing component offering federal grants to all participating states. In response, the 50 states and the District of Columbia modified and/or expanded existing programs to ensure the provision of a free and appropriate public education to all children with disabilities in the least restrictive setting. These funds are allocated among the states based on the number of children with disabilities, ages 3 through 21. Although the formula provides that states may receive up to 40 percent of the national average per pupil expenditure (APPE) for each child with a disability, in fact, federal allocations have never come close to this funding level. Currently, the best available estimate is that only about 7 to 8 percent of special education funding comes from federal sources.[2]

[2] For the last year in which these data were available (FY 1987-88), the state share was 56 percent, the local share 36 percent, and the federal share 8 percent. It is estimated that the federal share has declined since then. Table AH1, PA208-210 of the *Fourteenth Annual Report to Congress on the Implementation of the Individuals with Disabilities Education Act* (U.S. Department of Education, 1992).

Currently, the total federal Part B allocation under the IDEA is divided by the number of students identified for special education services across the nation. This results in a single average national allocation per identified student. The amount that an individual state receives is determined by simply multiplying the number of special education students identified in the state under Part B by the per student allocation for that year up to a federal funding limit of 12 percent of the state's student population.

The number of students receiving special education services nationally has grown from 8.2 percent of public school enrollments in FY 1977 to approximately 11 percent in FY 1994. Although federal law in 1975 *mandated* a free and appropriate education for all students with disabilities, many states and localities already had well established programs in place. In addition, state and local governments continue to provide, by far, the most financial support for these, and all other, public education programs.

State Funding

Each of the states has a different set of policies and procedures for determining allocations of special education aid to local school districts. The bases for these funding formulas differ for historical reasons because of varying local contexts and policy objectives, and perhaps because of the particular formula approach most in fashion or most used by neighboring states at the time of adoption. A great deal has been written and numerous typologies have been developed to categorize these alternative funding mechanisms. One such typology of state special education funding approaches is presented in Table 1.

Four basic funding approaches are shown and briefly described in the table. It is important to note, however, that many of the specifics of a state's special education fiscal policy are not reflected in such a simple typology. For example, one important policy decision is the degree of latitude districts have once they receive these categorical allocations. About one-half the states require that these funds actually be spent in special education programming, while the others have no such requirement. This type of important fiscal policy characteristic is independent of the type of funding formula used.

However, some important policy trends can be associated with the various formula types, and several references back to Table 1 will appear throughout the remainder of this paper.

Table 1
Special Education Finance in the States

State	Current Funding Formula	State	Current Funding Formula
Alabama	Flat Grant	Montana	Flat Grant
Alaska	Pupil Weights	Nebraska	% Reimbursement
Arizona	Pupil Weights	Nevada	Resource-based
Arkansas	Pupil Weights	New Hampshire	Pupil Weights
California	Resource-based	New Jersey	Pupil Weights
Colorado	Flat Grant	New Mexico	Pupil Weights
Connecticut	% Reimbursement	New York	Pupil Weights
Delaware	Resource-based	North Carolina	Flat Grant
Florida	Pupil Weights	North Dakota	Flat Grant
Georgia	Pupil Weights	Ohio	Resource-based
Hawaii	Pupil Weights	Oklahoma	Pupil Weights
Idaho	% Reimbursement	Oregon	Pupil Weights
Illinois	Resource-based	Pennsylvania	Flat Grant
Indiana	Pupil Weights	Rhode Island	% Reimbursement
Iowa	Pupil Weights	South Carolina	Pupil Weights
Kansas	Resource-based	South Dakota	Flat Grant
Kentucky	Pupil Weights	Tennessee	% Reimbursement
Louisiana	% Reimbursement	Texas	Pupil Weights
Maine	% Reimbursement	Utah	Pupil Weights
Maryland	Flat Grant	Vermont	Flat Grant
Massachusetts	Flat Grant	Virginia	Resource-based
Michigan	% Reimbursement	Washington	Resource-based
Minnesota	% Reimbursement	West Virginia	Flat Grant
Mississippi	Resource-based	Wisconsin	% Reimbursement
Missouri	Resource-based	Wyoming	% Reimbursement

Table Key

Pupil Weights: Two or more categories of student-based funding for special programs, expressed as a multiple of regular education aid.
Resource-based: Funding based on allocation of specific education resources (e.g., teachers or classroom units). Classroom units are derived from prescribed staff/student ratios by disabling condition or type of placement.
% Reimbursement: Funding based on a percentage of allowable or actual expenditures.
Flat Grant: A fixed funding amount per student or per unit.

In Florida, the state legislature passed the Florida Education Finance Program (FEFP) in 1973. The FEFP is one of the first, and among the most comprehensive, of the state education finance systems based on pupil weights (Table 1). The intent of the law is:

> To guarantee to each student in the Florida public educational system the availability of programs and services appropriate to his educational needs which are substantially equal to those available to any similar student notwithstanding geographic differences and varying local economic factors. (Section 236.012(1), F.S.)

The basic concept underlying the FEFP cost-based funding expressed in differing pupil weights (funding amounts) for students in alternative educational need categories became a model that has been followed by many other states. As shown in Table 1, 18 states use special education funding systems that are based on some form of a pupil weighting formula.

Current Issues

For the first 10 years after the passage of P.L. 94-142 in 1975, a national decline in overall school enrollments made it easier for states and localities to fund an expanding special education population. However, this situation began to change in the mid-1980s, when enrollments began to increase each year. This resulted in escalating costs in both regular and special education programs and services. Special education enrollments are also believed to be affected by the increased numbers of students in poverty and generally at risk. In addition, rising standards of educational achievement have resulted in more students falling below the expected norm. At the same time, fiscal stress across the full spectrum of social services has become widespread, generating pressures on federal, state, and local budgets.

As suggested earlier, the ways and placements in which special education services are provided have come under heightened scrutiny. Central to concerns associated with more traditional models of service provision are the relatively isolated and segregated settings in which many special education services have been provided. These types of concerns, which are related to rising enrollments and costs, and the relative restrictiveness of traditional placements, have raised fiscal issues at both the federal and state levels, and have led to a considerable number of fiscal reforms.

III. Federal Special Education Finance Issues

The reauthorization hearings on the IDEA have generated considerable discussion about special education finance at the federal level. Proposals range from the Heritage Foundation's call to eliminate the IDEA altogether ("Heritage Advice," 1994) to current proposals issued by the Department of Education to substantially change the IDEA's eligibility and funding provisions. Regarding eligibility, the Department has recommended changing the current 13 categories of disability with a single standard that would be similar to that adopted under the ADA. However, as this type of change could broaden entry to special education at a time when many policymakers are expressing concern about escalating counts of special education students, the Department has also recommended that these revised eligibility provisions be coupled with changes in fiscal policy that remove incentives to identify students for special education (U.S. Department of Education, 1995a). These reauthorization proposals and other ongoing federal fiscal policy issues are discussed below.

Census-based Funding

The Department's proposed change to federal funding provisions is to move to a "census-based" approach for distributing special education aid to the states. A simple description of this type of funding system is that two states with identical schoolchild populations would receive the same amount of federal special education aid regardless of the number or percentage of special education students identified or served. Although this type of funding approach has recently been adopted by several states for allocating state special education funds, it represents an important departure from prior special education fiscal policy because funding

is unaffected by the number of identified special education students. Proponents see it as the most effective way to provide local jurisdiction with more discretion and flexibility, and to stop penalizing states through reduced federal aid for their efforts to decrease the number of identified special education students. Opponents to this approach see it as a retreat from the traditional federal role of promoting special education, and possibly as a dangerous step along a path of eroding protection under IDEA.

A growing number of states, including Massachusetts, Montana, North Dakota, South Dakota, Pennsylvania, and Vermont, have adopted a census approach as the basis for their state special education funding system. Other states, including Illinois and California, are actively considering it. The states that have adopted this funding approach are classified as having "flat grant" funding in Table 1, because a fixed amount of aid is allocated per student. The difference with a *census-based* flat grant is that this fixed amount is multiplied by the total number of students in the district, rather than the count of special education students.

States adopting this type of funding system cite such objectives as (a) reducing administrative burden, (b) increasing local flexibility, (c) neutralizing incentives for identification and restrictive placements, and (d) bringing rising special education costs under control. Arguments favoring a federal census-based funding system are primarily heard from states that have adopted this type of reform. Because the fiscal incentive to identify special education students has been removed, overall statewide special education counts often tend to fall. Lower program enrollments have resulted in a loss of funds under the current federal headcount system.

Although some policymakers appear to see census-based systems as the future of special education finance, continuing challenges to this type of funding system may be on the horizon. For example, a recent Alabama Circuit Court found that a similar "total enrollment" method used to calculate state special education aid was in violation of the Alabama constitution (*Harper vs. Hunt*, 1993). This approach was found to be "irrational and arbitrary" because school systems with higher percentages of special education students receive less special education aid per pupil than like districts with fewer special education students. As opponents to census-based funding systems pursue similar arguments in other states, as well as at the federal level, additional judicial and legislative challenges to census-based funding approaches may ensue.

Fiscal Disincentives for Least Restrictive Placements

A second important issue at the federal level relates to state funding mechanisms that contain disincentives for serving special education students in the least restrictive environment (LRE), as required under the IDEA. For example, some state formulas allow for generous reimbursement to school districts when students with severe disabilities are placed in remote private or regionalized public settings. However, these formulas do not offer comparable assistance for the establishment of programs in neighborhood schools. Other states may offer alternative funding levels for placement in specialized settings, but do not include the general education classroom as one of the placement options. These types of provisions create a disincentive to the placement of special education students in the least restrictive environment.

Already OSEP has initiated challenges to states with restrictive funding systems through its monitoring system. In addition, through the reauthorization hearings, the Department has called for the Congress to "amend IDEA to require states that have state funding formulas for special education that provide greater funding for students in more restrictive placements to demonstrate . . . that their state formula does not result in placements that are more restrictive than is permitted by the LRE provisions" (U.S. Department of Education, 1995a).

"Incidental Benefit" Rule

A third federal issue relating to the concept of fiscal accountability also has implications for special education finance. It is argued that the Department's current "incidental benefit" rule creates disincentives for serving special education students in the general classroom. This is because special education teachers are only supposed to charge to the IDEA the time they spend directly working with special education students. *Technically*, if they are serving students with and without disabilities together in general classroom settings, as would be expected in a truly integrated setting, they must maintain extensive paperwork to account for this division of time. The Department's recommendation is to loosen this requirement as long as "children with disabilities benefit from these services and continue to receive all the services required by their IEPs" (U.S. Department of Education, 1995a). There is little evidence that the current rule really acts as much of a constraint on local practice because of the relatively small federal share of overall support. However, a more relaxed standard may have symbolic importance for promoting program integration and enhancing the integration of special education students.

Blended Funding and Service Provision

Although not included among the Department's recommendations for reauthorization, blending funding and services for students is at the heart of the education reform movement and is central to the current special education finance debate (McLaughlin, 1995, Verstegen, 1995). A critical question that confronts the development of future fiscal policy in special education is whether funding should retain its purely categorical nature. There is a natural tension between separate, highly categorical funding streams and overall education reform objectives favoring more "unified" schooling systems (McLaughlin & Warren, 1992). In such systems, the strict barriers between categorical programs begin to disappear and are replaced by a more seamless set of educational programs and services designed to meet the special needs of all students.

An example of this type of blended funding will be established in the 1996-97 school year under Title I of the revised Elementary and Secondary Education Act. High poverty schools will be allowed to blend funds from a variety of federal sources to make schoolwide changes for the benefit of all students. However, federal special education funds under the IDEA are specifically excluded from this allowance. A number of policymakers and professional groups, including the Council of Chief State School Officers (1994) and the National Association of State Directors of Special Education (NASDSE), have called for the inclusion of special education in this blended funding option for schoolwide projects. According to a NASDSE statement, "Combining funds provided under IDEA and the Elementary and Secondary Education Act's Chapter 1-while maintaining IDEA's procedural safeguards . . . could permit special educators to better participate in the reform process" (NASDSE, 1994).

Poverty Adjustment

A final issue to be discussed relates to adjusting federal special education funding on the basis of student poverty.[3] Under such provisions, high poverty states would receive a larger proportion of Part B funds. The rationale for this type of adjustment is the fact that high concentrations of poverty are associated with at-risk conditions which may lead to increased requirements for special education services. For example, additional resources for special education could provide more intensive and earlier interventions in high poverty states. However, to fully evaluate the appropriateness of such an adjustment, more needs to be known about the existing

[3] At the time of publication, a poverty adjustment to the IDEA Part B allocation formula is contained in the House version of legislation pertaining to the reauthorization of the IDEA.

relationship between special education aid and student poverty. For example, if high poverty districts across the nation already receive higher levels of special education aid, is further award adjustment needed?

In their examination of this question, McLaughlin and Owings found *no significant* relationship between poverty and overall identification rates based on analyses of state-level data from the years 1976, 1980, and 1983. However, for students with learning disabilities—the category of students that might be expected to be most affected by at-risk conditions related to sustained and intensified poverty—they found a significant *negative* relationship between the identification rate and the percentage of students in poverty for two of the three years ($p = -.05$). Furthermore, the identification rate of this category of special need students was found to be *positively* related to such indicators of *prosperity* as per pupil expenditures and per capita income for all three years ($p = .05$) (McLaughlin & Owings, 1993). These data seem to support a lingering concern that wealthy districts are most likely to identify high percentages of students in the milder disability categories, which are more subjectively determined. This suggests that the ability to leverage state and federal dollars for special education may be more related to additional local revenues to establish and support of these programs than true differences in educational need.

However, in a preliminary district-level analysis conducted by the author on a national database for the 1991-92 school year, a *positive* relationship between the percentage of students in poverty and the percentage of students in special education ($p = .01$) was found. On its own, this finding seems to suggest that districts with higher percentages of students in poverty already receive more special education aid. This conclusion is confounded, however, by the negative relationship ($p = -.01$) observed between the percentage of students in poverty and the amount of state and federal special education aid received per special education student.

The many complexities of the true relationship between amounts of special education aid and the percentage of students in poverty are not well understood. Better data and more careful and thorough analyses are needed. If existing state and federal special education formulas already result in more special education aid to students in high poverty districts, a further poverty adjustment may not be needed. However, if special education students in high poverty districts are receiving lower levels of state and federal aid under existing funding systems, running counter to expectations about the relationship between poverty and variations in the true need for special education services, the concept of some form of poverty-based special education allocation may be worthy of consideration.

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Even if such a case can be made for a poverty adjustment, however, the fact that the federal Title I funding program is exclusively designed to compensate for the effects of poverty would seem to raise additional questions about the need for a poverty adjustment to special education aid and about the relationship between these two large federal public education programs.

IV. State Special Education Finance Issues

Many of the issues affecting federal fiscal policy are also prominent in the states, where a number of interrelated factors appear to be driving future fiscal policy. These include rising enrollments and costs, more diverse student populations, the need to remove fiscal incentives for more restrictive placements, demands for increased local flexibility, and the goal of improving coordination and articulation between general education and all of the special need program areas.

Rising Enrollments

Concerns over increasing numbers of students identified for special education services and the corresponding increases in cost have contributed to an unprecedented degree of public scrutiny of special education programs over the past few years. For example, an article on special education in the *U.S. News and World Report* stated that "nationally, the bill for all special education services has rocketed from roughly $1 billion in 1977 to more than $30 billion today" (Shapiro et al., 1993). Such statistics caused the *Wall Street Journal* to conclude that ". . . at the level of expenditure and frequency of demand that (special education) programs have reached, something has got to give" (1993). These statements suggest a growing national sentiment that special education enrollments and costs are escalating out of control. The degree to which this is an important problem, however, varies from state to state and requires more careful consideration.

An analysis of special education enrollment trends shows that there has been accelerated growth in this sector. However, some of this growth is being driven by more rapidly expanding preschool enrollments, as well as the recent growth in special education for the birth- through- 2 population through the relatively newly authorized federal Part H program for infants and toddlers. Table 2 reports

enrollment trends nationally for the most current years in which comparable information by age group is available. While total special education enrollment (i.e., birth through 17) grew by 15.56 percent during the 5-year period between 1987-88 and 1992-93, general education school-age enrollments only grew by 3.51 percent. However, overall growth in the special education population is mitigated somewhat by factoring out the faster growing preschool and infant programs. Even though these additional programs do require expanded special education revenues to support them, enrollment changes in the base program are best compared across similar age groupings.

Comparing growth in the special education population ages 6 through 17 to overall general education enrollments over this same age span still shows 12.64 percent growth in special education as compared to 3.51 percent for the general education population. Thus, even holding age categories constant, special education enrollments grew at approximately three and one-half times the rate of the general education population during this period.

Table 2
Special and General Education Enrollment Trends: 1987/88 - 1992/93

	Enrollments			
Category of Students	**1987/88**	**1992/93**	**Average Percent Change Per Year**	**Total Percent Change**
Special Education				
Birth through 2	29,717	76,397	20.79	157.08
Birth through 17	4,260,627	4,923,492	2.93	15.56
Ages 3 through 5	335,771	459,728	6.49	36.92
Ages 6 through 17	3,895,139	4,387,367	2.41	12.64
General Education				
Pre-K through Grade 12	40,764,104	42,195,453	0.69	3.51

Rising Expenditures

These growth trends alone would be expected to drive up special education costs. However, the full extent to which these costs are growing across the nation is unknown. While some states report that they have data of this type, others say that they cannot break out the cost of special education programs. Of the 24 states responding to a recent survey administered by the national Center for Special

Education Finance (CSEF), exactly one-half reported that they did not know the statewide cost of their special education programs. In addition, while national special education expenditure data were reported for the 1982-83 through 1987-88 school years, the federal government no longer requests these data from the states. While three different studies measuring the cost of special education to the nation have been conducted since the inception of the IDEA, the last of these was completed in 1988 and reported data from the 1985-86 school year. Thus, as there is no current information on the national expenditure for special education, the CSEF estimate of over $32 billion, presented at the beginning of this paper, is based on 10-year-old estimates. Given this, what can be said about changes in the cost of special education across the states?

Table 3 summarizes the best data available from various sources that can be used as a basis for comparing special to general education expenditures per pupil across the nation. It is important to note that all of the expenditures shown in this table are presented in terms of constant 1989-90 dollars. The first set of estimates shown in this table is from three national cost studies using data collected during the 1968-69, 1977-78 and the 1985-86 school years (Rossmiller, Hale, & Frohreich, 1970). These data suggest that the average special education expenditure per special education student, adjusted for inflation, expanded during this period at an overall average rate of 4.08 percent a year. In addition, by dividing this overall period into two separate time segments based on the timing of the three studies, growth in the average expenditure per pupil is shown to be considerably higher (6.86 percent per year) for the earlier time period of 1968-69 to 1977-78, than for the later period of 1977-78 to 1985-86 when the annual rate of growth is shown to be 1.05 percent.

Another source for examining special education expenditures is national data obtained from the State Expenditure Survey, which was conducted for the years 1982-83 through 1987-88. Chaikind, Danielson, and Brauen used these data to derive estimates of the special education expenditure per special education student for the years 1983-1984 through 1986-87. Based on these data, an average annual rate of growth in special education expenditures of 5.59 percent is shown in Table 3 for this time period (Chaikind et al., 1993). This seems to conform with the 5.1 percent rate of growth estimated by the 12 states responding to a national survey on special education costs conducted by CSEF (1995).[4] Based on these various estimates, it appears that the average change in special education expenditures per pupil over this period of time has been about 4 to 5 percent per year.

[4] A detailed analysis of education expenditures in New York from 1980-1993, showed average growth rates in expenditures per special education student at 3.53 percent for New York and 2.65 percent for all other New York districts. (Lankford & Wyckoff, June 1995).

The lower part of Table 3 shows two alternative measures of general education expenditures per pupil over comparable time periods. The first set of estimates is derived from the three studies described above as a basis for estimating special education expenditures. Because an important purpose of these studies was to compare special to general education expenditures, expenditures on special education were carefully extracted from the general education estimates. This is important because it allows expenditures on special education versus general education to be compared in isolation from one another. As with the special education expenditures, the average expenditure per general education student changes at a faster rate during the time period between the first and second studies than between the second and third. However, the general trend of a faster growth rate in expenditures for special education holds throughout. Over the full time period covered by these three studies, the rate of growth in special education expenditures per special education student is about twice that for general education students (4.08 percent versus 2.08 percent).

A second set of data that can be used to compare the relative rate of growth in the average general versus special education expenditure per pupil comes from the State Expenditures Survey. These data hold an advantage over those from the national studies in that they are based on actual reported expenditures nationwide, rather than on the results of two studies with different samples of districts and data collection methodologies. On the other hand, they are less appropriate for comparative purposes because the general education expenditure does not exclude special education services. That is, the general education expenditure is derived by dividing total education expenditures, including special education, by total students. Thus, if the special education expenditure per student is rising at a faster rate than that for general education, as the data in Table 3 suggest, then this measure of the rise in the general education expenditure will be somewhat overstated. The rate of growth shown for this time period is 5.59 percent for special education, as compared to 4.62 percent for all of education, resulting in the conservative estimate that special education expenditures per student are growing at a rate that is approximately 20 percent faster than the overall education expenditure per student.

In summary, what can be concluded from these special education enrollment and expenditure data? Are special education enrollments and costs rising at a sufficiently fast level across the states to render this a major issue? The data in Table 2 show a growth rate for special education enrollment that is about three and one-half times that for general education, without including the more accelerated rates of growth found in the pre-school and early intervention populations. It can be expected that this rate of growth alone will result in added

Table 3
Trends in Special Education and General Education Expenditures per Pupil (Expressed in 1989/90 Dollars)

Year	Expenditures	Average Annual Percent Change: By Time Segment	Average Annual Percent Change: Overall Time Period
Expenditures per Special Education Student: Based on national cost studies*			
1968/69	$2,103		
1977/78	$3,820	6.86	
1985/86	$4,153	1.05	4.08
Based on national data obtained from the State Expenditure Survey**			
1983/84	$3,862		5.59
1986/87	$4,546		
Based on CSEF State Survey***			
1995			5.10
Expenditures per General Education Student: Based on national cost studies (excludes special education costs)*			
1968/69	$2,288		
1977/78	$3,270	4.05	
1985/86	$3,247	-0.09	2.08
Based on national data obtained from the State Expenditure Survey (includes special education costs)**			
1983/84	$3,963		
1986/87	$4,538		4.62
1969/70	$2,746		
1991/92	$4,981		2.74

Sources:
* Rossmiller et al., 1970; Kakalik et al., 1981; and Moore et al., 1988.
** Chaikind et al., 1993.; U.S. Department of Education, 1992b; U.S. Department of Education, 1995b.
*** CSEF Survey on State Special Education Funding Systems, 1994-95.

special education expenditures. Beyond this, based on the best expenditure data available, it appears that special education expenditures per pupil are growing at a rate somewhere between 20 to 100 percent faster than for the general education student.

To some policymakers, these upward trends are disturbing. In part, this appears to be true because of the current era of fiscal conservatism, but also because of the perceived impact on general education. However, despite the general lack of current data separating special from general education costs, it is important that these arguments not be ruled entirely by anecdotal information or questionable leaps of logic. For example, based on the fact that over 10 percent of all K-12 public school students are identified as special education and the generally accepted cost multiple of 2.3 relating special to general education costs per student (Moore et al., 1988), it is sometimes argued that about 25 percent of total education expenditures (2.3 X 10+ percent) go to special education students. While it can be argued that this estimate may be as good as any available, it substantially overstates the *marginal cost* of serving special education students. Based on the assumption that all special education students are entitled to the same basic set of general education services received by all students, the marginal costs of special education are estimated to be closer to 14 percent ($32/$233 billion) of the public education expenditure. Of course, at over $32 billion (see footnote 1), this is still a major national investment.

Restrictiveness Resulting from Public Aid Differentials

Federal concerns over fiscal incentives for more restrictive, high cost placements, also have become a major source of tension in some states. These issues are coupled with the expressed need for greater flexibility in the use of special education funds being heard from many district-level administrators. Although the IDEA clearly calls for services to be provided in the least restrictive environment (LRE) to the maximum extent appropriate, large disparities in the percentages of special education students in general education classrooms are observed across the states. For example, while nine states serve over 60 percent of special education students in general education classrooms, in six other states less than 15 percent of special education students are placed in general classroom settings (O'Reilly, 1995). As relationships between funding policy and restrictive placement are increasingly being studied, policymakers are beginning to realize that state and federal fiscal provisions sometimes provide major stumbling blocks to this type of program reform. Nearly two-thirds of the states are currently pursuing special education finance reform. This unusual level of activity provides strong evidence that a very

powerful set of social conditions and reform issues is influencing the special education finance reform movement.

Table 1 divides the states into four basic types of funding systems. The states with public funding differentials favoring placements in separate classrooms, schools, or facilities tend to be those with resource-based systems or those with pupil weighting systems based on the primary setting in which students receive services. Both of these types of funding systems generally feature an array of alternative types of primary service configurations, with state aid varying by type of placement.

With the underlying concept that the amount of aid a district receives for a student with special needs should be directly related to the cost of providing services for the student, resource- based funding systems have historically been seen as strong bases for driving funding differentials. Ironically, resource-based systems are now seen as a problem when they create fiscal incentives for higher cost placements that are often provided in separate classrooms or facilities.

However, these types of perverse incentives need not necessarily be linked with resource- based funding systems. For example, as described below, Florida has added a set of funding allocations, or weights, to the state special education finance system for students mainstreamed into regular education classrooms. However, it is difficult to know how to categorize a "fully included" child under such a system, and it has been reported that the full use of these mainstreaming weights is being pursued with some caution.

Lack of Program Flexibility at the Local Level

The need for greater flexibility at the local level is also a major issue for future state reform. An important concern in a number of states, as described above, is the lack of fiscal mechanisms to support placement in the least restrictive environment, thereby greatly restricting local flexibility in the design of appropriate services. A second concern for some states is the inability to use special education funds to support certain types of instructional interventions outside of separate special education programs or classes, or in some cases entirely outside any form of special education.

A third concern relating to flexibility in the use of funds at the local level is that transportation services are often supported by separate, categorical funding sources. As districts attempt to move students with disabilities back to their neighborhood schools, they face start-up costs associated with making these

schools fully accessible. Although these added costs might be completely offset over time through savings in transportation, many state funding systems do not allow dollars saved through reduced transportation services to be recouped for these purposes.

A fourth issue relating to flexibility is the need for better program articulation and coordination across categorical program areas. Far too often in schools with high levels of special needs, general, special, compensatory, and limited-English proficient (LEP) programs exist in virtual isolation from one another. Major concerns focus on inefficiencies that result from the need for multiple administrative and accountability structures, alternative forms of eligibility determination, and student segregation resulting from separately provided services.

V. Florida - A Case Study

Although Florida has a traditional special education funding system based on student weighting factors, an innovative new set of "mainstreaming weights" has been added over the past few years to allow funding for students who receive their special education services in general education classrooms. However, as described by a State Department of Education spokesperson, these Mainstream Cost Factors are only seen as "stop-gap" measures. Rather, Florida's policy vision may lie in the Exceptional Student Education Finance Program Model, currently being pilot tested across the state.

Exceptional Student Mainstreaming Weights

According to a Florida Department of Education spokesperson, these new weights "represent a commitment to mainstreaming and to pay for the support that special education students need." In addition to the state's traditional funding weights for special education, which are based on categories of disability, mainstream weights were added for grades K-3, 4-8, and 9-12. This program category appears to set the Florida special education funding system apart from all of the other weighted systems across the country.

Florida's new set of weights is an interesting and important departure from traditional special education weighting approaches in that it is a specific attempt to include a weight for special education students mainstreamed into general education classes. It also varies from the basic approach used to derive all of the other Florida funding weights for exceptional students. Although only exceptional students are eligible for supplemental mainstream weighting, they are not listed with the exceptional student programs, but rather are included with the basic program weights. As such, these revenues are not tracked back to special education and need not necessarily be spent for special education services. Districts are also not required to report cost information on these programs back to the state. Unlike

the other Florida funding weights, these weights are not based on the actual costs of mainstreaming exceptional students, but are simply derived by doubling the program weight for each of the three grade ranges for "basic" programs.

The results of using these mainstreaming weights on the programs and services received by exceptional students in Florida should be of considerable interest to special education fiscal policymakers across the nation, because they represent an attempt to strike some form of middle ground between the total abandonment of funding models based on cost differentials across districts and the unaltered retention of old, cost-based systems. Policymakers in a number of states are currently reviewing their special education finance systems for the incentives and disincentives they contain for least restrictive placements. As is the case in Florida, many of these state systems were designed at a time when there were greater concerns about the linking of state aid to program costs than about allowances for local flexibility and the mainstreaming of students with exceptional needs.

Florida's "Exceptional Student Mainstreaming" weights represent an important attempt to break through what is recognized as insufficient flexibility in many of the current cost-based systems to encourage greater mainstreaming. On the other hand, as described by the Department, these new weights have a "potential for abuse because they are not based on true excess costs." So, while Florida state officials are encouraging the use of these mainstream funding categories, they also report attempts to be cautious. Over the first few years of implementation, it appears that local districts also were cautious and somewhat slow to respond to this new set of opportunities for mainstreaming funds. More recently, however, it has been reported that the number of students claimed within these mainstreaming categories has grown by over 50 percent.

Exceptional Student Education Finance Program

This new program, which may represent the "vision of the future of special education funding in Florida," is currently being piloted in 20 schools across the state. This pilot program was designed in response to concerns that some of the state's schools have pushed the current system as far as it can go in terms of flexibility and now face limitations in designing appropriate program options. State department officials describe three major sets of barriers to program reform under current state regulations.

First, they argue that the concept of a funding system that is based on categories of disability runs counter to program reforms that are based on the idea that these types of categories should not drive placement and service decisions. Second, there

is growing sentiment on the part of state policymakers that special education no longer needs 15 separate cost factors, as currently found in the state funding system. The differences between many of the weights is minimal.

Third, to generate exceptional student program aid, a student with an exceptionality must be served in a classroom entirely filled with other exceptional students. Also, the requirement that teachers for these classes may not be "out-of-field" creates incentives to serve students with particular types of exceptionality in separate classes with other like students. Such provisions clearly discourage mainstreaming strategies and the use of local flexibility to ensure that students are served in the most appropriate and least restrictive setting.

Designed to counter these limitations, the specific rationale given for this pilot finance program is summarized in the program application:

> Schools and districts have often identified state statutes and rules as a real or perceived barrier to implementing the most responsible and flexible strategies. It is anticipated that implementation of the proposed . . . model will remove these barriers . . . This proposed model is designed to support diverse and unique delivery systems and strategies at every local school and district (Florida Department of Education, 1995).

On the surface, the revised system seems straightforward. It uses a more limited set of cost factors, which are based on the severity of student need and the intensity of support required. However, the overall vision underlying this pilot funding program seems unclear. Eventually the state will need to develop program goals that go beyond the wish to increase local flexibility. The simple relaxation of state rules and regulations may be sufficient to bring about meaningful reform in a few "cutting edge" schools with the desire for change and a clear sense of direction. However, the observations of policymakers in other key reform states suggest that a clearer set of statewide program goals and objectives may be needed to drive fiscal policy reform and to have a meaningful impact on special education programming across the state.

VI. The Future of Special Education Finance[5]

Continued Growth

As described above, the special education population has been growing at a rate that is more than three times that for general education students. Add to this the prediction that the general education population will grow by over 10 percent over the next 10 years and the observation that special education expenditures per student have been growing at a faster rate than general education expenditures, and it is not hard to imagine considerable strain on special education budgets over the next decade.

However, in addition to these general growth trends, other factors also might fuel special education growth in the future. These include (a) increasing numbers of young children eligible for services through the Preschool Grants and Infants and Toddlers with Disabilities programs; (b) a potential revised definition of special education as called for in the U.S. Department of Education proposal; and (c) the rising rates of sociodemographic indicators present among the new school-aged population, which often act as predictors of disabilities in children and youth. Continued expansion of the special education population is also likely to be driven by such regular education reforms as increased academic standards and emphasis on assessment. As educational expectations rise, more students are seen as being in need of support services. This expected growth in the special education student population will further escalate the costs of special education instructional programs, and also will include such infrastructure requirements as facilities, equipment, and personnel.

[5] This section draws from Parrish & Verstegen, 1994.

At the same time that the need for future programs and services is predicted to escalate appreciably, the demand for services already may be outstripping availability in some states. In addition, with the general wave of fiscal conservatism sweeping the country, it is difficult to imagine considerable growth in special education support. This suggests a minimum of new services and a continued restructuring of current programs in an effort to achieve greater efficiency (National Governors' Association & National Association of State Budget Officers, 1994).

These trends suggest that a crossroads in special education policy may be upon us or quickly approaching. Current state interest in restructuring education is likely to continue to build, and will focus on efforts to increase the effectiveness of, as well as to contain expenditures on, programs for children with disabilities. If services are restructured, choices must be made about what changes should occur and which programs and services should be affected.

However, the current period of fiscal stress also presents opportunities. Several states are using the budget crisis as an opportunity to look more closely at the effectiveness of programs and services with an eye towards pruning the least efficient while restructuring existing services for greater effectiveness. For example, some states are examining the high cost of uniformly providing special education assessments to students with learning problems prior to the provision of support services. The challenge will be to balance the diverse education needs and rights of all students against limited financial resources.

This struggle between increasing needs and dwindling resources may be particularly pronounced in Florida, where future demographic and economic forces seem likely to be especially powerful. Florida's overall growth rate between 1980 and 1990 has been described as "bordering on the pathological," at 32.7 percent as compared to 9.8 percent across the nation. Although a June 22, 1994, memorandum from the Florida Department of Education cites an overall school-age growth projection of 2.5 to 3.1 percent through 1998-99 and relatively stable growth through the years 2002 to 2010, the nonduplicated counts of exceptional students from the 1991-92 and 1992-93 State Exceptional Student Education Profiles show a 6.7 percent increase in the count of exceptional students over this one-year period. Over the period 1976-77 through 1991-92, the number of special education students in Florida more than doubled (Florida Department of Education, 1993).

As a result of this growth, Florida was reported to need an additional 2,252 special education teachers during the 1990-91 school year, a deficit second only to that

reported by New York (U.S. Department of Education, 1993). And between the 1991-92 and the 1992-93 school years, when the number of special education students grew by 6.7 percent, the number of teachers only increased by 4 percent. These data show a widening, rather than a narrowing, gap between the number of special education teachers needed and the number employed.

Other indicators of a continued rise in the percentage of students in the state who will be in need of exceptional student services are the facts that Florida is among the top 10 states in low birthweight babies and above the national average in the number of mothers receiving little or no prenatal care and in the number of births to teenage mothers. These data suggest substantial funding increases for exceptional student programs will be needed just to stay even with current levels of service.

However, raising the needed support is likely to be an especially difficult challenge given the fact that Florida ranked 49th among the states in terms of the percentage of population under 18 and first in population over 65. During the 1990s, this discrepancy is predicted to increase. These demographic trends will place additional strain on Florida's resources for elderly citizens, suggesting heightened competition between the elderly and the state's school children for access to the public dollar. Less than one-quarter of Florida's households currently have children in the public schools. If this percentage continues to decline as predicted, it is likely that Florida schools will face considerable challenges in garnering needed financial support (Florida Department of Education, 1993).

In addition, an overall public education pupil-teacher ratio that is already higher than the national average, and the movement regarding the rights of general education students, suggest that encroachment into general education revenues is also not a likely area for additional support. Thus, maintaining current levels of programming for the state's future special education students will be a challenge. At the same time, with the sixth highest percentage of students with disabilities dropping out of school, the state desires to *improve* current levels of service.

Although perhaps exaggerated in Florida, similar trends can be found across the nation. A desire for improved services will confront an increasing demand for services and dwindling resources. These expected patterns seem to clearly indicate a need for restructuring programs. These changes may become even more necessary given the increasing public demand for demonstrating education results. Somehow the school districts across the nation will need to find ways to make better use of existing dollars in the provision of services. How might these efficiencies be gained?

Strategies to Explore

One area for possible examination is whether states wish to reduce current fiscal incentives for the further identification of special education students. For example, one national special education cost study found that 13 percent of all special education resources were spent in the area of eligibility assessment (Moore et al., 1988). This is one reason why a number of states are pursuing the increased use of alternative instructional interventions prior to making special education referrals (Parrish & Verstegen, 1994).

Another future trend appears to be increased integration across categorical program areas. McLaughlin and Warren discuss options for restructuring schools into what they term "unified schooling systems (McLaughlin & Warren, 1992). Such schools have developed a "seamless" set of educational programs and services to meet the needs of all students. The continued separation of categorical programs is costly and sometimes leads to a fragmented and inefficient set of schooling programs (McLaughlin, 1995; Verstegen, 1995).

In addition, progressive management strategies and increased demands for school-based accountability call for greater local discretion and parent involvement in the design and provision of appropriate services for all children. These movements are likely to have implications for future development of fiscal policies for exceptional students across the nation.

In the face of increased demands and dwindling resources in public education, it is essential that ways be found to channel funds where they are most needed. This suggests a needs-based funding system, which would vary with differences in true measures of student *need* rather than the number of students identified or the quantity and types of services being provided. Externally determined measures, beyond district control, are needed to link funding to student service needs without creating incentives for local providers to necessarily label more students or to provide one type of service over another. Unfortunately, such external measures are not currently available.

Beyond this, a movement away from fiscal to results-based accountability is often cited.[6] It would seem that schools should be provided funding on some form of objective needs-based system, and then be given the latitude to use these funds to

[6] For example, one of the goals of Florida's Blueprint 2000, the vision statement of the Florida Commission on Education Labor Accountability, is "Schools Accountable for Students' Performance."

design appropriate educational programs and services for all students. Accountability would be primarily based on *results* in the form of appropriate and identifiable individual student and schoolwide measures, rather than on the tracking of individual dollars to identified students. To revitalize the concept of educational accountability, some of the current emphasis on the *legal* use of funds would be direct indicators of the *wise* use of these limited resources. The development of objective, needs-based funding systems and appropriate, relevant, and agreed-upon results-based accountability systems will pose considerable challenges for future special education research and policy development.

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